

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 VALLETTA 0387

E.O. 11652: GDS
TAGS: PINT, PFOR, MT
SUBJECT: MALTA - QUARTERLY POLITICAL/ECONOMIC REPORT

REF: 76 VALLETTA 1528 (DTG 301430Z DEC 76)

1. SUMMARY: THE SYMBOLIC BEGINNING OF THE BRITISH MILITARY
WITHDRAWAL FROM MALTA TOOK PLACE IN MID-MARCH. THE FINAL
DEPARTURE OF THE BRITISH FORCES WILL BRING SIGNIFICANT
CHANGES TO MALTESE SOCIETY, AND THE PROBLEM OF HIS COUNTRY'S
POLITICAL AND ECONOMIC FUTURE AFTER 1979 NOW DOMINATES
ALMOST EVERYTHING THAT PRIME MINISTER MINTOFF SAYS AND DOES.
WHILE PUSHING THE ITALIANS AND THE FRENCH TO MAKE COMMITMENTS
TO SUPPORT MALTA IN THE 1980'S, MINTOFF ALSO IS THEATENING
TO TURN TO A BILATERAL ARRANGEMENT WITH LIBYA IF THE
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EUROPEANS DO NOT RESPOND SOON. DOMESTICALLY, MINTOFF
WARNED THE MALTESE DURING THIS QUARTER TO WORK HARDER TO
HELP SECURE THEIR OWN FUTURE, AND HE INSTITUTED A NUMBER
OF UNSETTLING CHANGES IN VARIOUS GOVERNMENT PROGRAMS AS A
BELT-TIGHTENING MANEUVER. BILATERAL U.S./MALTESE RELATIONS
WERE HIGHLIGHTED BY THE ARRIVAL OF A NEW AMBASSADOR AND
RENEWED EXPRESSIONS OF HOPE AMONG MANY MALTESE THAT CLOSER

COOPERATION MIGHT BE OF FUTURE BENEFIT TO THEM. END SUMMARY

DOMESTIC AFFAIRS

2. IN HIS TRADITIONAL NEW YEAR'S ADDRESS TO THE NATION, PRIME MINISTER MINTOFF EMPHASIZED THAT THE CHALLENGING TIMES AHEAD FOR MALTA WOULD REQUIRE EVERYONE TO WORK HARDER IF THE NATION WAS TO SUCCEED IN ITS "APPOINTMENT WITH DESTINY" IN 1979. REVIEWING SUCH PAST ECONOMIC PROGRESS AS INCREASED FOREIGN TRADE, THE GROWTH OF TOURISM, AND MALTA'S FAVORABLE BALANCE OF PAYMENTS, MINTOFF EMPHASIZED THAT MORE MUST BE ACHIEVED OVER THE NEXT TWO YEARS TO STRENGTHEN THE MALTESE ECONOMY EVEN FURTHER.

3. CALLING FOR THE "ELIMINATION OF FAT" AND THE "FLEXING OF MUSCLES", MINTOFF ANNOUNCED THAT A NUMBER OF PREVIOUSLY-SUBSIDIZED GOVERNMENT PROGRAMS WOULD BE REVISED TO REDUCE LOSSES IN THE PUBLIC SECTOR, RESULTING IN PRICE INCREASES FOR VARIOUS UTILITIES WHICH WOULD HIT THE AVERAGE MALTESE WHERE IT HURTS -- IN THE POCKET BOOK. HOWEVER, HE ALSO ANNOUNCED CERTAIN INCREASES IN GOVERNMENT - FINANCED SOCIAL BENEFITS TO HELP OFFSET THE UTILITY RISES.

4. THIS WAS FOLLOWED IN FEBRUARY BY THE PRESENTATION OF THE 1977/78 BUDGET TO PARLIAMENT, WHICH CAUSED FURTHER DISRUPTIONS. STATING THAT PRODUCER SUBSIDY PROGRAMS DATING BACK TO WW II, FOR SUCH ITEMS AS BREAD AND ANIMAL FODDER (TO KEEP RETAIL PRICES ARTIFICIALLY LOW) COULD NO LONGER BE JUSTIFIED, THE GOM ANNOUNCED THEIR REPLACEMENT WITH

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MONETARY ALLOWANCES TO CONSUMERS INSTEAD.

5. THE RESULT WAS A PERIOD OF UNREST AND PUBLIC DEMONSTRATIONS FROM SUCH DISPARATE GROUPS AS THE BAKERS (WHO STRUCK TWICE DURING THE QUARTER, LEADING TO BREAD SHORTAGES AND MANY CONSUMER COMPLAINTS), THE POULTRY AND ANIMAL PRODUCERS (WHO BESIEGED THE MINISTER OF AGRICULTURE IN HIS OFFICE), AND THE GENERAL PUBLIC (WHO SIMPLY RESENTED ANY CHANGES IN THEIR LONG-ENTRENCHED HABITS).

6. FOR A TIME IT APPEARED AS IF MINTOFF WAS GOING OUT OF HIS WAY TO PICK A QUARREL WITH DIFFERENT GROUPS IN MALTESE SOCIETY; PERHAPS TO DRIVE HOME HIS MESSAGE THAT CHANGES WOULD BE NECESSARY IN THEIR EASY-GOING WAY OF LIFE AND RELATIVELY HIGH STANDARD OF LIVING IF THINGS DID NOT TURN OUT SATISFACTORILY AFTER THE BRITISH FORCES LEFT. MINTOFF HAS CONSISTENTLY PUSHED THE MALTESE TO WORK HARDER SINCE HE BECAME PRIME MINISTER, AND HE HAS BEEN A STRONG ADVOCATE OF GOVERNMENT BUDGET FRUGALITY AS WELL. SO THESE EFFORTS

TO CHANGE DOMESTIC CONDITIONS WERE NOT OUT OF CHARACTER FOR HIM, AND BY THE END OF THE QUARTER IT APPEARED THAT HIS VARIOUS PROPOSALS WOULD FINALLY BE INSTITUTED IN A MANNER WHICH WOULD REPRESENT AT LEAST A VICTORY IN PRINCIPLE FOR MINTOFF -- AS USUAL.

7. ONE INEVITABLE RESULT OF ALL OF THIS, HOWEVER, WAS A SHARP RISE IN MALTA'S COST-OF-LIVING. ALWAYS CRITICIZED AS BEING INACCURATE AND GROSSLY UNDERSTATED BY MINTOFF'S GOVERNMENT FOR POLITICAL PURPOSES, THE OFFICIAL INDEX ROSE BY MORE THAN 4.5 PER CENT IN FEBRUARY ALONE.

8. THE NATIONALIST PARTY ELECTED A NEW LEADER AND DEPUTY LEADER THIS QUARTER TO REPLACE THE AGING INCUMBENTS, GIORGIO BORG OLIVIER AND VINCENT TABONE. THE NEW NATIONALIST LEADER-DESIGNATE IS DR. EDDIE FENECH ADAMI, AGE 43, A LAWYER WHO HAS BEEN IN PARLIAMENT SINCE 1969. CONFIDENTIAL

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HIS DEPUTY IS DR. GUIDO DEMARCO, AGE 46, ALSO A LAWYER WHO HAS BEEN A PARLIAMENTARIAN SINCE 1962. THE NATIONALISTS HOPE THAT THE PASSING OF THEIR LEADERSHIP TO A YOUNGER GENERATION WILL IMPROVE THEIR EFFECTIVENESS AS AN OPPOSITION PARTY IN PARLIAMENT, AS WELL AS THEIR CHANCES OF SUCCESS AGAINST THE LABORITES IN THE NEXT ELECTION. BOTH FENECH ADAMI AND DEMARCO HAVE VISITED THE U.S. IN RECENT YEARS UNDER THE INTERNATIONAL VISITOR PROGRAM.

FOREIGN RELATIONS

9. WITH AN IMPRESSIVE PUBLIC "TROOPING THE COLOR" BY THE ROYAL MARINES, THE CEREMONIAL BEGINNING OF THE BRITISH MILITARY WITHDRAWAL FROM MALTA TOOK PLACE IN MID-MARCH. A LARGE CROWD OF LOCAL DIGNITARIES AND MALTESE SPECTATORS WATCHED THIS SYMBOLIC FAREWELL PARADE, WHICH SET THE SCENE FOR THE CLOSING PHASE OF AN ANGLO-MALTESE RELATIONSHIP WHICH GOES BACK ALMOST 180 YEARS TO THE NAPOLEONIC ERA.

10. ALTHOUGH BOTH MALTESE POLITICAL PARTIES NOW AGREE THAT THERE WILL NO LONGER BE FOREIGN MILITARY FORCES IN MALTA AFTER THE BRITISH COMPLETE THEIR WITHDRAWAL, THERE ARE MIXED EMOTIONS AMONG MANY MALTESE CONCERNING THEIR COUNTRY'S POLITICAL AND ECONOMIC FUTURE.

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11. DURING THIS QUARTER, THE NATIONALISTS STEPPED UP THEIR CRITICISM OF MINTOFF'S VAGUE PROPOSALS FOR FUTURE GUARANTEES FROM "FRIENDLY" MEDITERRANEAN COUNTRIES, ESPECIALLY MINTOFF'S SO-CALLED PERSONAL FRIEND, QADHAFI. THE NATIONALISTS CONTINUE TO STRESS THAT MALTA IS A EUROPEAN NATION; THEREFORE MALTA SHOULD LOOK TO WESTERN EUROPE FOR PROTECTION AND ASSISTANCE IN THE 1980'S.

12. MINTOFF, ON THE OTHER HAND, STATED IN A NEWSPAPER INTERVIEW IN EARLY MARCH THAT MALTA MUST DEPEND ON EITHER AN AMALGAM OF SOUTHERN EUROPEAN AND ARAB GOVERNMENTS FOR ITS NEEDS, OR ELSE RELY ENTIRELY ON ARAB SUPPORT. HE CLAIMED THAT MALTA HAD BEEN TREATED BADLY IN THE PAST BY THE BRITISH AND NATO, SO THAT WHEN MALTA BECOMES REALLY INDEPENDENT AFTER 1979, ITS NEIGHBORS SHOULD BE
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WILLING TO SATISFY MALTA'S NEEDS IN RECOGNITION OF ITS EFFORTS TO ACHIEVE TRUE "PEACE" IN THE MEDITERRANEAN.

13. AT THE SAME TIME, THERE ARE GROWING PRIVATE EFFORTS BY MINTOFF TO FORCE HIS SELF-APPOINTED BENEFACTORS, THE

ITALIANS, THE FRENCH, THE LIBYANS AND THE ALGERIANS, TO MOVE MORE RAPIDLY IN GIVING HIM TANGIBLE GUARANTEES OF FUTURE ASSISTANCE. HE HAS BEGUN TO SHOW HIS IMPATIENCE WITH THE SLOWNESS OF THE ITALIANS AND THE FRENCH IN REACTING TO HIS "DEMANDS".

14. AS AN EFFORT TO PUT PRESSURE ON THE EUROPEANS, MINTOFF FLEW OFF ON ANOTHER OF HIS ONE-DAY VISITS TO LIBYA IN LATE FEBRUARY. ALTHOUGH HE SAW QADHAFI, HE FAILED TO ANNOUNCE ANY SPECIFIC AGREEMENTS WHEN HE RETURNED, LEADING TO THE GENERAL BELIEF THAT THE FINAL DETAILS OF MINTOFF'S PROPOSED MALTESE/LIBYAN OPTION REMAINED TO BE SETTLED.

15. RECOGNIZING THAT INCREASED FOREIGN TRADE AND INVESTMENT ARE ESSENTIAL IF THE MALTESE ECONOMY IS TO BE ABLE TO SUSTAIN ITSELF, THE GOM WAS ACTIVE DURING THIS QUARTER IN SEEKING SUCH OPPORTUNITIES. A GOM DELEGATION VISITED BRAZIL, COSTA RICA AND MEXICO, AND CAME BACK WITH THE EXPRESSED HOPE THAT THESE COUNTRIES WOULD BEGIN TO USE MALTA FOR TRANSSHIPMENT PURPOSES. A RETURN VISIT BY A BRAZILIAN TRADE DELEGATION RESULTED IN AN AGREEMENT FOR A JOINT LUMBER PROCESSING AND RESHIPMENT ARRANGEMENT. THERE ALSO WERE VISITS TO MALTA BY TRADE DELEGATIONS FROM KUWAIT, THE PHILIPPINES, AND SPAIN DURING THIS QUARTER, BUT NO IMMEDIATE RESULTS WERE ANNOUNCED FROM THESE DISCUSSIONS.

16. FINALLY, AT THE END OF THE QUARTER, MINTOFF AND A DELEGATION FLEW TO LONDON ON WHAT WAS BILLED AS THE FIRST LEG OF A THREE-COUNTRY STOPOVER (WITH GERMANY AND ITALY TO FOLLOW) TO SEEK ADDITIONAL BUSINESS INVESTMENT AND

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GOVERNMENT ASSISTANCE FROM THESE COUNTRIES. MINTOFF MET WITH FOREIGN MINISTER OWEN, AND HE MADE A "WELCOME TO MALTA" SPEECH TO A GROUP OF BRITISH INDUSTRIALISTS WHICH WAS GENERALLY WELL RECEIVED. ALTHOUGH THE GOM DELEGATION DID NOT GO ON TO GERMANY OR ITALY BECAUSE APPOINTMENTS COULD NOT BE ARRANGED FOR MINTOFF WITH SCHMIDT OR ANDREOTTI, THE TRIP TO LONDON APPEARED TO SIGNAL A MORE REALISTIC ATTITUDE ON THE GOM'S PART CONCERNING THE NEED TO STEP UP THEIR EFFORTS TO ATTRACT FOREIGN INVESTMENT AS A PARTIAL SOLUTION TO MALTA'S LONG-RANGE ECONOMIC PROBLEMS.

BILATERAL RELATIONS

17. THE ARRIVAL OF AMBASSADOR LAINGEN IN EARLY JANUARY HAS GIVEN FURTHER IMPETUS TO THE PREVIOUSLY-NOTED GROUND SWELL OF OPTIMISM AMONG MANY MALTESE, IN BOTH

OFFICIAL AND PRIVATE CIRCLES, CONCERNING AN IMPROVEMENT
IN U/MALTESE RELATIONS WHICH MIGHT LEAD TO BENEFITS
FOR MALTA'S ECONOMY.

18. DURING HIS COURTESY CALLS ON GOVERNMENT MINISTERS,
AND IN HIS ORIGINAL MEETING WITH PRIME MINISTER MINTOFF,
THE AMBASSADOR EMPHASIZED THAT WE HAVE ALWAYS CONSIDERED
OUR RELATIONS WITH MALTA TO BE HARMONIOUS AND FRIENDLY,
BUT THAT OUR BILATERAL INTERESTS HERE REMAIN LIMITED
BECAUSE THE UNITED STATES HAS NEVER HAD MAJOR POLITICAL
OR ECONOMIC TIES WITH MALTA.

19. THE AMBASSADOR DID INFORM THE GOM THAT THE U.S.
DOES NOT OPPOSE MINTOFF'S CONCEPT OF NEUTRALITY FOR
MALTA AFTER THE BRITISH MILITARY FORCES DEPART (SINCE
THIS POLICY WOULD INCLUDE THE CONTINUED DENIAL OF MALTESE
FACILITIES TO ALL MILITARY FORCES, INCLUDING THE SOVIETS).

20. IN CONSIDERING MALTA'S BASIC PROBLEM OF FUTURE
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ECONOMIC VIABILITY, WE HAVE CONTINUED TO ADVISE THE GOM
THAT THE MOST EFFECTIVE WAY THE US COULD HELP WOULD BE TO
ASSIST THE MALTESE IN PROMOTING ADDITIONAL PRIVATE U.S.
INVESTMENT WHICH MIGHT PROVIDE SOME OF THE JOBS WHICH
MALTA SO BADLY NEEDS. HOWEVER, WE ALSO HAVE POINTED OUT
THAT A SOLUTION TO PROBLEMS SUCH AS THE PHOENIX CASE
WILL BE NECESSARY TO HELP IMPROVE THE ATMOSPHERE FOR
INVESTMENT.

21. ON AN INDIVIDUAL BASIS, THE MALTESE REMAIN OPEN AND
FRIENDLY TOWARD THE U.S., AND HOPEFUL THAT WE WILL HELP
THEM AFTER THE BRITISH FORCES LEAVE. WE ARE TRYING TO
KEEP THESE EXPECTATIONS FROM GETTING OUT OF HAND IN
OUR ONGOING OFFICIAL AND PRIVATE DISCUSSIONS WITH THE
GOM. LAINGEN

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